AGRI-FOOD EQUITY FUND

FINANCIAL STATEMENTS

For the Year Ended March 31, 1999

Provincial Auditor Saskatchewan

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AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the statement of financial position of the Agri-Food Equity Fund as at March 31, 1999 and the statements of revenue, expenditure and net assets (deficiency), and cash flows for the year then ended. The Fund's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Wayne Strelioff

Regina, Saskatchewan
September 30, 1999

Wayne Strelioff, CA
Provincial Auditor

AGRI-FOOD EQUITY FUND
STATEMENT OF FINANCIAL POSITION
As at March 31

	1999	1998
ASSETS		
Current assets:		
Due from General Revenue Fund (Note 3)	$ 414,922	$ 21,631
Accounts receivable (Note 8)	3,156,078	234,226
Accrued interest & dividends receivable	88,982	4,872
	3,659,982	260,729
Deposits held by lawyer (Note 6)	430,000	—
Investments (Note 4)	8,178,218	3,849,000
Total assets	$ 12,268,200	$ 4,109,729
LIABILITIES AND NET ASSETS (DEFICIENCY)		
Current liabilities:		
Accounts payable	$ 842	$ 564
Loan payable (Note 7)	9,763,081	4,913,081
Total liabilities	9,763,923	4,913,645
Net assets (deficiency) (Statement 2)	2,504,277	(803,916)
Total liabilities and net assets (deficiency)	$ 12,268,200	$ 4,109,729

(See accompanying notes to the financial statements)

AGRI-FOOD EQUITY FUND
STATEMENT OF REVENUE, EXPENDITURE AND NET ASSETS (DEFICIENCY)
Year Ended March 31

	Budget 1999	1999	1998
Revenue			
Grants from the Department of Agriculture & Food	$ 2,388,000	$ 3,150,000	$ 282,146
Interest & dividends	376,000	234,701	96,535
Administration fee	10,000	5,000	7,489
Miscellaneous	—	195	—
Total revenue	2,774,000	3,389,896	386,170
Expenditure			
Financing costs	1,138,000	78	61,546
Professional fees	—	842	—
Provision for investment loss	1,250,000	80,783	1,277,471
Total expenditure	2,388,000	81,703	1,339,017
Net revenue (expenditure)	$ 386,000	3,308,193	(952,847)
Net (deficiency) assets, beginning of year		(803,916)	148,931
Net assets (deficiency), end of year - to Statement 1		$ 2,504,277	$ (803,916)

(See accompanying notes to the financial statements)

AGRI-FOOD EQUITY FUND
STATEMENT OF CASH FLOWS
Year Ended March 31

	1999	1998
Cash provided by (used in):		
Operating Activities:		
Net revenue (expenditure)	$ 3,308,193	$ (952,847)
Add items not affecting cash:		
Provision for investment loss	80,783	1,277,471
Net change in non-cash working capital items:		
(Increase) in accounts receivable	(3,005,963)	(197,295)
Increase (decrease) in accounts payable	278	(6,517)
Cash provided by operating activities	383,291	120,812
Financing Activities:		
Increase in loan payable	4,850,000	4,524,967
Cash provided by financing activities	4,850,000	4,524,967
Investing Activities:		
Net (increase) in deposits held by lawyer	(430,000)	---
Purchase of investments	(4,420,000)	(4,624,148)
Redemption of investments	10,000	---
Cash used in investing activities	(4,840,000)	(4,624,148)
Net change in cash position	393,291	21,631
Due from General Revenue Fund, beginning of year	21,631	---
Due from General Revenue Fund, end of year	$ 414,922	$ 21,631

(See accompanying notes to the financial statements)

AGRI-FOOD EQUITY FUND
NOTES TO THE FINANCIAL STATEMENTS
March 31, 1999

1. Authority and Definition

The Agri-Food Equity Fund operates pursuant to Section 17.2 of *The Department of Agriculture Act* (Act) to promote and develop agriculture diversification in Saskatchewan. The Fund originated in 1994 as a division of the Agricultural Credit Corporation of Saskatchewan (ACS). The transfer of authority for the Fund to the Department of Agriculture and Food was effective September 22, 1997 by Order in Council 625/1997.

The Fund's mandate is to finance enterprises that promote the creation and expansion of agricultural enterprises in Saskatchewan. Investments may take the form of secured bonds, secured debentures and equity of the enterprise. Pursuant to regulations under the Act, the Fund is restricted to a maximum 49% investment in an enterprise's long-term debt or equity, up to $1 million unless otherwise authorized by the Minister.

2. Significant Accounting Policies

The financial statements are prepared in accordance with generally accepted accounting principles. The following accounting principles are considered significant.

a) Basis of Accounting

The financial statements are prepared on the accrual basis of accounting.

b) Revenue Recognition

Interest and dividend revenue is recognized as follows:

i) When there is reasonable assurance of ultimate collection, revenue is recognized when earned.

ii) When there is uncertainty as to ultimate collection, revenue is recognized when received.

Grants from the Department of Agriculture and Food are recognized as revenue when they are received/receivable.

c) Investments

Investments are accounted for at cost.

d) Provision for Investment Loss

The provision for investment loss represents management's estimate of likely losses based upon an individual review of the investments. It is possible that changes in future conditions in the near term could require a material change in the provision.

3. Due from General Revenue Fund

The Fund's bank account is included in the Consolidated Offset Bank Concentration (COBC) arrangement for the Government of Saskatchewan.

The Fund's earned interest is calculated and paid by the General Revenue Fund on a quarterly basis using the Government's thirty-day borrowing rate (1999 average rate – 5.04%; 1998 average rate – 3.77%) and the Fund's average daily bank account balance.

4. Investments

Investments are comprised as follows:	1999	1998
Loans and debentures	$ 6,384,785	$ 4,449,785
Common shares	2,509,645	1,284,645
Preferred shares	2,042,041	792,041
	10,936,471	6,526,471
Less: provision for investment loss	(2,758,253)	(2,677,471)
	$ 8,178,218	$ 3,849,000

Investments include interest-bearing instruments at rates ranging from 6% to 15% with maturities extending to the year 2004. Investments also include $1.95 million (1998 - $1.05 million) in participating debentures. The profitability of the investee determines the repayment of principal and interest on the participating investments.

5. Financial Instruments

The Fund has determined the fair value of its financial instruments as follows:

a) Due from GRF, accounts receivable, accrued interest and dividends receivable, accounts payable and loan payable:

The carrying amounts on the statement of financial position approximate their fair value due to the short-term nature of these instruments.

b) Investments:

It is not practicable to determine fair values for the investment portfolio due to the lack of a market for these investments. An attempt to determine fair values would not be sufficiently reliable.

6. Commitments

At year-end, the Fund had approved but not yet disbursed investments of $650,000. This includes the $430,000 in Deposits held by lawyer shown on Statement 1.

7. Loan Payable

The Fund borrows from the General Revenue Fund to fulfil its mandate. The loan is non-interest bearing with no fixed terms of repayment and is limited to a maximum of $20 million.

8. Related Party Transactions

All Government of Saskatchewan agencies such as departments, corporations, boards and commissions are related since they are all controlled by the Government. These financial statements include transactions with other Government agencies.

Included in accounts receivable is grant revenue of $3,150,000 due from the Department of Agriculture and Food for the Fund's financing costs and investment loss provision.

The Fund received use of office space and administrative services from the Department of Agriculture and Food without charge.

Other amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

9. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000. If not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.